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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1553
INFO RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 1535
RUEHFR/AMEMBASSY PARIS IMMEDIATE 5972
RUEHUL/AMEMBASSY SEOUL IMMEDIATE 7595
RUEHFK/AMCONSUL FUKUOKA IMMEDIATE 5944
RUEHHK/AMCONSUL HONG KONG IMMEDIATE 6438
RUEHOK/AMCONSUL OSAKA KOBE IMMEDIATE 9613
RUEHKS/AMCONSUL SAPPORO IMMEDIATE 6551
RUEHGH/AMCONSUL SHANGHAI IMMEDIATE 0326
RUEHIN/AIT TAIPEI IMMEDIATE 6883
RUEHGV/USMISSION GENEVA IMMEDIATE 3239
RUEATRS/TREASURY DEPT WASHDC IMMEDIATE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE
RUEAWJA/JUSTICE DEPT WASHDC IMMEDIATE

C O N F I D E N T I A L TOKYO 000317

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DEPT FOR EAP
ALSO FOR EEB/IFD/OIA:KAMBARA
DEPT PASS USTR FOR BEEMAN
USDOC FOR 4410/ITA/MAC/OJ/NMELCHER
JUSTICE FOR ANTITRUST DIVISION - CHEMTOB
TREASURY DEPT FOR IA/CARNES AND POGGI
PARIS FOR OECD
GENEVA FOR USTR

E.O. 12958: DECL: 02/06/2012
TAGS: [EINV](#) [ECON](#) [PREL](#) [JA](#)
SUBJECT: METI VICE MINISTER CONDEMNS ROLE OF ACTIVIST
SHAREHOLDERS - AGAIN

REF: 07 TOKYO 3689

Classified By: Charge d'Affaires Joseph Donovan, Reasons 1.4 (b) (d)

¶1. (SBU) METI Administrative Vice Minister Takao Kitabata belittled the role of shareholders in Japanese corporate governance during a recent speech to the Ministry's research institute. Defending a METI-sponsored proposal to expand the issuance of stocks that confer differential voting rights, Kitabata, according to a February 5 Nikkei report, said, "Shareholders in general have no ability to run a company. They are fickle and irresponsible and greedily demand high dividends." He also dismissed as "useless" the role of outside directors on company boards. The Nikkei article quickly circulated among Tokyo-based fund managers, many of whom are already deeply disappointed in the government's sluggish economic reform efforts.

¶2. (C) Econoff contacted METI working level officials February 6 to seek confirmation of the accuracy of Kitabata's comments and express concern about the possible impact on foreign investment to Japan. The Assistant Director in charge of investment issues at METI's Americas Division said she had not seen the Nikkei article but promised to check and get back to us. The Deputy Director of METI's Trade and Investment Facilitation Division, the office directly responsible for investment promotion activities, was similarly non-committal on the remarks themselves but reiterated there was no change in the government's pro-investment policies.

¶3. (C) Econoff also spoke February 6 with a senior advisor to JETRO Chairman Yasuo Hayashi who indicated Hayashi was puzzled by Kitabata's remarks and concerned about the potential impact on foreign investors, especially in light of recent weakness in Japan's equity markets. The JETRO official added Hayashi does not believe Kitabata was

expressing official government views. More likely the Vice Minister's comments reflected the opinions of hard-line members of the Japan Business Federation (Keidanren) who oppose a stronger role for activist shareholders, whether institutional or retail investors, in company affairs.

¶4. (C) Comment: Kitabata repeatedly and publicly condemned the activities of U.S.-based investment fund Steel Partners during its July 2007 court battle with the Bull-Dog Sauce Company (Reftel). These recent remarks, however, are the clearest expression yet of Kitabata's view that shareholders have no legitimate role in the operations of the company they own. Not only do his comments undermine the GOJ's position in favor of greater foreign direct and portfolio investment but are a factually incorrect reading of Japanese corporate law. Under Japan's Company Law, shareholders -- in theory at least -- hold ultimate authority for corporate operations, including the unfettered right to hire and fire managers and directors, accept or reject a takeover bid and set strategic direction for the firm. It may be worth using the upcoming Washington visit of METI Americas Director Noriyuki Mita or other visiting GOJ officials to seek clarification of Kitabata's remarks and reiterate our concerns about the potentially negative impact on inward investment flows if such remarks are allowed to stand unchallenged as official GOJ views.
DONOVAN